

ORIGINAL



0000131730

RECEIVED
BEFORE THE ARIZONA CORPORATION COMMISSION

2011 NOV 15 P 4: 29

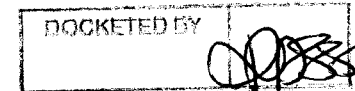
GARY PIERCE,
Chairman
BOB STUMP,
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN,
Commissioner
BRENDA BURNS,
Commissioner

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission

DOCKETED

NOV 15 2011



IN THE MATTER OF THE APPLICATION)
OF VAIL WATER COMPANY FOR)
AUTHORITY TO ISSUE PROMISSORY)
NOTE(S) AND OTHER EVIDENCE OF)
INDEBTEDNESS PAYABLE AT PERIODS)
OF MORE THAN TWELVE MONTHS)
AFTER THE DATE OF ISSUANCE.)

DOCKET NO. W-01651B-99-0351

IN THE MATTER OF THE APPLICATION)
OF VAIL WATER COMPANY FOR A RATE)
INCREASE)

DOCKET NO. W-01651B-99-0406

DECISION NO. 62450

STATUS UPDATE

Pursuant to correspondence received on November 3, 2011, the Vail Water Company ("VWC") files this status report regarding various matters pertaining to the decade-long effort to realize the important goal of importation of water from the Central Arizona Project for use in VWC's service area.

Last Spring, the owner's representative, Mr. Christopher ("Kip") Volpe, received a call from Commission Staff asking for a summary of VWC's efforts to find a way to import CAP water the 25 miles or more that lay between VWC's customers and the CAP canal located west of Tucson. Mr. Volpe discussed with Staff the Company's efforts to convince the City of Tucson to wheel CAP water through its distribution system all the way to the eastern edge of the Tucson valley (the only economically feasible way to realize this goal). Following that call, VWC received a compliance notification from Staff related to the need to produce final plans as prescribed nearly eleven years ago by the

1 Commission in Decision No. 62450. Following receipt of that letter, Mr. Volpe again
2 called Staff to describe the status of his dealings with Tucson Water, and followed up with
3 a letter to Staff dated June 2, 2011 describing his communications with Tucson Water,
4 compiling emails with Assistant City Attorney Chris Avery, and discussing efforts to
5 schedule approval by the Tucson City Council for the Oro Valley Wheeling Agreement -
6 the first such contract ever entered into by Tucson Water. Mr. Volpe provided a copy of
7 the Oro Valley Wheeling Agreement as part of that correspondence.

8 Acutely aware that the ten year limit for providing final design plans needed to be
9 extended, Mr. Volpe then followed up with further correspondence to Staff on June 30,
10 2011, requesting an extension for the filing of Final Plans, and explaining the present
11 circumstances. One month later, rather than responding to the extension request, Staff sent
12 a second compliance notice. Mr. Volpe again called Staff and was told that VWC should
13 *withdraw* its request for an extension and seek an amendment to Decision No. 62450.
14 Following Staff's advice, the request for an extension was then formally withdrawn.

15 In the meantime, Mr. Volpe continued to pursue a contract with Tucson Water, as is
16 reflected in the correspondence from Tucson Water dated August 16, 2011, a copy of
17 which is attached. [See, Exhibit No. 1.] Thereafter, VWC contacted its legal counsel,
18 asking that an application to extend the filing date for the Company's final plans be filed,
19 but to not seek to extend the date for actually putting CAP water to use within its service
20 area (which the Company remains determined to meet, and is confident it will be able to
21 meet.) That application was docketed on August 19, 2011. Although the Staff may not
22 have taken the Application to be a specific request to amend the original Decision, that
23 was the intent of this renewed application, filed at Staff's request.

24 Staff then filed a third notice, dated October 31, 2011, itemizing the requirements
25 of Decision No. 62450. Among other things, Staff referenced the need to suspend the
26

1 collection of CAP charges. This status report has been written to address the questions
2 posed in Staff's latest memorandum.

3 A. **Collection of CAP Charges.** As recommended by Commission Staff, VWC
4 has suspended its billing for CAP Service Charges (thirty-two cents per thousand gallons),
5 as authorized in 1999. If the Commission abandons its requirement that VWC use CAP
6 water directly within its service area by 2015, and so directs, VWC will also suspend
7 collections of CAP Hook-up Fees pursuant to such directions as the Commission may
8 dictate.

9 B. **Refunding Mechanism.** Within thirty days, VWC will have refunded all
10 CAP Service Charges that it has collected since the beginning of this year as credits
11 against its customers' November water bills. If the Commission abandons the requirement
12 of having VWC use CAP water directly within its service area, and so directs, VWC will
13 also refund unexpended CAP Hook-up Fees and all other CAP Service Charges pursuant
14 to such procedures as the Commission may direct.

15 C. **Timing of Refunds.** VWC believed that the objective of using CAP water
16 by 2015 would not lightly be abandoned by the Commission. Consequently, it sought an
17 extension of the date by which its engineering plans were to be submitted. VWC acted in
18 good faith by working with Commission Staff and seeking an extension to the 2010
19 deadline. Nevertheless, at Staff's request, VWC will refund the 2011 CAP Service
20 Charges within its November billing cycle as noted above.

21 D. **Accounting.** The dollar amount of CAP Service Charges that will have
22 been refunded by the end of this month is more than \$93,000. As required by Decision
23 No. 62450, VWC has provided the Commission with annual reports as to revenues and
24 expenditures in its CAP account. An update to that report, covering January 1, 2011 to
25 November 14, 2011, is attached. [See, Exhibit No. 2.]
26

1 All the while, VWC has continued to work with Tucson Water on a Wheeling
2 Agreement that will allow VWC to use the CAP water. [Please see the Tucson Water
3 correspondence dated November 8, 2011, and the pipeline alignment options that have
4 been generated pursuant to those negotiations, attached at Exhibit No. 3.] Officials at
5 Tucson Water have requested VWC to apprise Commission Staff that they would be more
6 than willing to meet with them to describe the seriousness of the interconnect negotiations,
7 and, especially, the importance of importing CAP water into the Tucson Active
8 Management Area. Additionally, officials at the Arizona Department of Water Resources
9 are available to apprise Commission Staff of the critical significance of CAP utilization in
10 the effort to balance water supply and demand in the Tucson Active Management Area.

11 Long-term projections for the costs of GRD membership for those utilities without
12 a CAP supply are significantly higher than for those with a CAP supply. Understanding
13 those consequences, which would inevitably mean higher costs for its customers, VWC
14 successfully sought to expand its CAP entitlement by an additional 1,100 acre feet
15 (pursuant to the "CAP Reallocation") in order to ensure that it would ultimately be able to
16 end its dependence on groundwater entirely.

17 As the attached revenue and expense report reflects, VWC has expended over two
18 million dollars towards the acquisition of Central Arizona Project water since the original
19 Decision was issued. Indeed, VWC has expended more funds attempting to realize this
20 project so far in 2011 than it has collected in 2011. VWC has long been aware that the key
21 to controlling costs in the delivery of water to its customers was ensuring CAP
22 availability, and the Company has been very focused on capitalizing on the opportunity it
23 now was to finalize a wheeling arrangement with Tucson Water.

24 In conclusion, VWC would reiterate three points made in its August 19th filing.
25 VWC acknowledges that it was unable to precipitate a resolution to the "CAP Direct Use"
26 engineering problem by the end of 2010, as it had been directed to do by the Commission

1 a decade ago. VWC has taken many efforts over the past decade to get a plan in place, but
2 until recently it was not possible to file "Final Plans" with the Commission as the
3 consummation of such plans depended on an agreement with a third party--Tucson Water.
4 VWC has acted in good faith with Commission Staff and feels strongly that:

- 5 • Direct use of CAP remains a goal that the Commission should encourage,
6 and it is one that is now feasible for the Company.
- 7 • The millions of dollars that the Company has spent to date to ensure that a
8 renewable, affordable water supply would be available to its customer base
9 will have gone to naught if the performance date for utilization planning is
10 not adjusted to comport with Tucson Water's availability.
- 11 • The Company needed the City of Tucson to be a willing partner to wheel
12 CAP water across the Tucson valley for use by the Company's customers.
13 This has always meant that the Company would not have exclusive control
14 of the terms or timing of any final plans for direct use of its allocation.

15 RESPECTFULLY SUBMITTED this 15th day of November, 2011.

16 LEWIS AND ROCA

17 

18 Michael F. McNulty
19 Michael Hallam
20 Lewis and Roca, LLP
21 40 N. Central Avenue
22 Phoenix, Arizona 85004
23 Attorneys for the Vail Water Company

24 ORIGINAL and fifteen (15) copies
25 of the foregoing filed this 15th day of
26 November, 2011, with:

24 Arizona Corporation Commission
25 Docket Control – Utilities Division
26 1200 W. Washington Street
Phoenix, Arizona 85007

1 COPY of the foregoing hand-delivered
2 this 15th day of November, 2011, to:

3 Lyn Farmer, Chief Administrative Law Judge
4 Hearing Division
5 Arizona Corporation Commission
6 1200 W. Washington Street
7 Phoenix, Arizona 85007

8 Jane Rodda, Administrative Law Judge
9 Hearing Division
10 Arizona Corporation Commission
11 400 W. Congress St.
12 Tucson, Arizona 85701

13 Janice Alward, Chief Counsel
14 Charles Hains
15 Legal Division
16 Arizona Corporation Commission
17 1200 W. Washington Street
18 Phoenix, Arizona 85007

19 Steve Olea, Director
20 Utilities Division
21 Arizona Corporation Commission
22 1200 W. Washington Street
23 Phoenix, Arizona 85007

24
25 
26

EXHIBIT 1

August 16, 2011



CITY OF
TUCSON

TUCSON WATER
DEPARTMENT

Christopher Volpe
The Estes Company
1010 N. Finance Center Drive, Suite 200
Tucson, AZ 85710

Subject: Wheeling CAP Water to Vail Water Company

Dear Mr. Volpe:

Thank you for approaching Tucson Water about wheeling a volume of the Vail Water Company CAP allocation, through our distribution system to your water system. As discussed, our extensive discussions with the Town of Oro Valley helped to identify the critical steps for building a foundation for a wheeling agreement. These steps include:

- Hydraulics analysis of our two water systems and identification of a connection point between them.
- Performing financial calculations of capital and operating costs plus the subsequent generation of a wheeling rate.
- Developing necessary legal documents.
- Construction of the necessary infrastructure to connect the two systems.

With respect to the recently completed wheeling agreement with Oro Valley, which was our first, this process took more than two years. A more complex agreement with the Pascua Yaqui Tribe took five years to complete. Based on the Oro Valley experience, we should be able to do much of it in a shorter timeframe; between six and twelve months.

Shortly, staff will be in contact with you to set up working meetings to begin building this foundation. I look forward to working with the Vail Water Company to complete a mutually beneficial agreement to move a volume of its CAP allocation off the canal, through the Tucson Water system and to the Company's service area.

Very truly yours,


Andrew H. Quigley
Interim Director

AHQ/lr

cc: Richard Miranda, Deputy City Manager
Sandy Elder, Deputy Director, Tucson Water



EXHIBIT 2

VAIL WATER COMPANY
Report of CAP Hookup Fee and CAP Service Fees Collected
11/14/2011

Docket No. W-01651A-99-0351
Decision No. 62450, dated 04/14/2000

<u>INFLOWS</u>	<u>2011</u>	<u>From Inception</u>
Hookup fees	\$ 111,000.00	\$ 2,902,920.00
Service charges	\$ 93,670.55	\$ 954,485.32
	<u>\$ 204,670.55</u>	<u>\$ 3,857,405.32</u>
 <u>OUTFLOWS</u>		
Central AZ Project (M&I, capital chg, recharge prepayments)	\$ (250,244.00)	\$ (2,020,127.80)
Purchase of recharge credits	\$ -	\$ (489,200.00)
Legal & other	\$ (7,340.00)	\$ (15,050.00)
	<u>\$ (257,584.00)</u>	<u>\$ (2,524,377.80)</u>
 NET FEES LESS CAP EXPENSES	 <u>\$ (52,913.45)</u>	 <u>\$ 1,333,027.52</u>
 OTHER SOURCES (USES)		
Recharge Subsidiary (Kai)	\$ 17,760.38	\$ 196,883.57
Sale of Long term storage credits to del Lago Golf	\$ 6,360.00	\$ 53,305.00
Interest on invested funds	\$ 21,242.89	\$ 451,156.35
	<u>\$ 45,363.27</u>	<u>\$ 701,344.92</u>
 Balance	 <u>\$ (7,550.18)</u>	 <u>\$ 2,034,372.44</u>

EXHIBIT 3



CITY OF
TUCSON

TUCSON WATER
DEPARTMENT

November 8, 2011

Christopher Volpe
The Estes Company
1010 N. Finance Center Drive, Suite 200
Tucson, AZ 85710

Subject: Wheeling CAP Water to Vail Water Company – Next Steps

Dear Mr. Volpe:

Thank you for your continued partnership in working with us to determine the requirements and most efficient solutions for Tucson Water (TW) to wheel Vail Water Company's (VWC) CAP allocation through our distribution system. As discussed at our last meeting on September 13, 2011, there are a number of items that still need to be addressed in order for TW and VWC to finalize a "wheeling design" with an ultimate goal of initiating wheeling in CY2015. These items are:

- **Financial** – cost of service, wheeling rates, capital components, etc.

Timeline on financial approval by Mayor and Council for standard water rates was provided after our last meeting. After the cost of service is determined in March 2012², we will have the necessary inputs to proceed with the detailed calculations to determine a wheeling rate to VWC.

POC: Belinda Oden

Estimated Completion Date: 5/30/2012

- **Power** – determine initial cost and proposed escalation factor

Parallel to the wheeling rate study, TW has already begun calculation of the power costs required to wheel an acre-foot of water to VWC. Preliminary calculations estimate that today's power cost to wheel VWC water is approximately \$160/AF. As in prior wheeling agreements, TW performs an annual adjustment on the actual power costs to wheel water.

POC: Cecilio Flores

Estimated Completion Date: 10/31/11

- **Hydraulic Analysis** – determine infrastructure upgrades and interconnect location

The hydraulic analysis performed to date shows adequate infrastructure capacity to wheel up to 2,000 AF of VWC's CAP allocation to the TW Houghton reservoir. In order to wheel the remaining distance to VWC's closest point of wheeling delivery location, upgrades to the Old Vail Tank site are needed along with a main extension.



The construction of the booster upgrades and electrical service is currently planned as part of a developer financed project (Plan Number 096-2008) though no construction activity has taken place by the developer. If VWC were to construct the upgrades, an estimated financial requirement of \$200K is required. Additionally, approximately three miles of 12-inch main, with estimated cost of ~\$1.5M, is required to complete the connection between TW and VWC. Final details on transmission main alignment need to be identified.

POC: Richard Herran
Estimated Completion Date: 11/30/2011

- Finalize Wheeling Parameters – base or peak load, fire flow, etc.

From prior discussions, it is understood that VWC will receive wheeled water under a base load scenario and that no fire flow will be provided though the wheeling interconnect. Confirmation of these parameters is lynch-pin to arriving at the wheeling rate and sizing infrastructure upgrades necessary to the wheeling.

POC: Sandy Elder and Joe Olsen
Estimated Completion Date: 11/30/2011

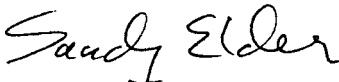
- Wheeling Agreement – approval through respective governing bodies

The final step to enacting a wheeling agreement between TW and VWC will be approval of the written wheeling agreement by the respective governing bodies. The wheeling agreement between Oro Valley and TW can serve as a template by which to fine tune based on the aforementioned parameters.

POC: Chris Avery
Estimated Completion Date: 6/15/2012

We look forward to continuing to meet with you and your team to finalize the above items. Should you have any questions, please do not hesitate to contact me at 791-2666 or Joe Olsen at 837-2216.

Respectfully yours,


Sandy Elder
Interim Director

JO/lr

